3· Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

Minister, was a financial and economic expert who believed that the budget could only be balanced satisfactorily by stringent economy in national expenditure. The new Minister of Trade, Herr Böck-Greisau, was an experienced industrialist, with a special interest in export problems, who believed in free enterprise, and shared Dr. Kamitz' view on the need for economy. Both men were convinced exponents of the new policy of self-reliance and self-help.

Before the end of 1951 the Coalition Government's efforts to establish financial stability had already met with success. To restrict credit expansion the bank-rate was raised from 3½ to 5 per cent on December the 6th, while the trade unions and the employers collaborated to keep prices down. During the first four months of 1952 savings-bank deposits rose by 538 million schillings, compared with an increase of only 77 million schillings during the whole of 1951.

One reason why the People's Party appointed the new Ministers was that it wished to strengthen its representation in the Cabinet. But it believed also that their policy was what Austria needed at the time. A natural result of its action, however, was that the policy tended to become a party issue, although it had virtually been started before the Cabinet changes took place.

The new Ministers were energetic and uncompromising in carrying out the measures in which they believed. Within a few months of his taking office Herr Böck-Greisau was with difficulty dissuaded from relinquishing his post on a question of principle. During the autumn party differences came to a head over Dr. Kamitz' proposals for an economy budget. The People's Party was mainly interested in a deflationary policy to maintain the value of the schilling. The Socialists wanted bigger expenditure on public works and new housing projects in order to keep up employment. No agreement could be reached, and so, as has been seen, the Government resigned. Pending the elections a temporary compromise budget was accepted by both sides.

Before the elections took place the new economic policy

so-called "German property," were lost to Austrian control and thus lost to the economy.

zation of the currency and credit structure. Until November 1945, Allied Military schillings and the Reichsmarks of the former German administration formed the currency basis of the country. Approximately 7.7 billion Reichmarks and 1 billion Allied Miliary schillings were in circulation, representing an inflation of 850 percent above the 1937 level. This circulation, compared with the almost negligible volume of goods and the low production capacity, made the money practically worthless. Here, therefore, was where the first measures of reform had to be effected.

In 1945 the provisional government provided the first legal foundation for the reorganization of currency and the credit system by the law covering payments by banks (Schaltergesetz), the law covering public and private credit extension (Kreditlenkungsgesetz) as well as the "Notenbanküberleitungsgesetz," which reestablished the Austrian National Bank. It created therewith the preliminaries for an orderly banking and payment service, for the time being still under the statutory power of the then provisional government. With the "Schillingsgesetz" of November 30, 1945, introducing the first currency reform and establishing the schilling as legal tender, the three aforementioned laws were extended to cover the three western occupation zones, the country as a whole received a uniform currency and banking system.

The "Schillingsgesetz" and the conversion decreed reduced currency in circulation (paper) from approximately 7.7 billion Reichsmarks and 1 billion Military schillings to 3.3 billion schillings and the aggregate circulation (banknotes plus contingent liabilities of the National Bank) to about 7 billion schillings. Parallel with this--the first control of all deposits having been effected by the previously mentioned "Schaltergesetz"--occurred a further appropriate blocking of deposited means to restrict purchasing power and inflationary price rises.

notes was subjected to Austrian control, the legal basis ensued through an amendment of the "Notenbanküberleitungsgesetz," June 30, 1946, which also promulgated the statutes of the Austrian National Bank as a bank of issue. With the enactment of June 25, 1946, the Austrian National

With the enactment of June 25, 1946, the Austrian National Bank was authorized to control foreign exchange transactions. For the time being the rate of exchange had been fixed at the rate decreed by the occupation powers: 1 dollar = 10 schillings and 1 pound = 40 schillings. 652 453 457

A gratifying step towards free foreign exchange relations was the release of blocked Austrian assets in the USA in 1946, and later on, the return of the gold reserve of the Austrian National Bank which had been transferred by the German administration. As a first step the United States had returned to the Austrian Federal Government 4,450 kg gold, representing a part of the gold reserve, which in 1938 amounted to 78,000 kg. On November 4, 1947, the Austrian envoy to London signed a protocol. According to its terms Austria was awarded an additional 26,187 kg fine gold by the Reparation Commission in Brussels. 457

With this substantial gold reserve on hand the Austrian Federal Government progressed a step further with its currency policy and enacted the Währungsschutzgesetz (a measure to protect currency), reducing the aggregate currency circulation almost 40 percent. For the intended reform, aimed at reducing currency in circulation as well as funds deposited with bank and credit institutions, the cited federal law of November 19, 1947 (confirmed by the Allied Commission for Austria on December 4, 1947, and enforced on December 10, 1947), was important in the following three points: 652

(a) Through a reduction of the aggregate currency volume (money in circulation plus deposited funds) a corresponding reduction of prices, and, last but not least, a restriction of black market trades could be accomplished;

(b) The general business moral could be improved; and

(c) Through a cancellation of the old blocked accounts (in accordance with the first laws covering currency policies in 1945) an elimination of economically untenable positions, and therewith, the first step towards a reconstruction of the credit system in the interest of the entire economy could be undertaken.

With the enforcement of this law a new trend in financial matters developed. The inflationary influences prevailing until then were curtailed while, financially, the prerequisites necessary for the reconstruction of the Austrian economy were set up. Although the circulating means did not become scarce to the extent 458 652

During July 1946, the parliament passed the first nationalization law (see part A, III, paragraph b). This nationalized, in addition to enterprises of heavy industry, mining and shipping, the three largest Austrian commercial banks (the Creditanstalt-Bankverein, the Oesterreichische Länderbank A. G. and the Hypotheken- und Creditinstitut). With the federal law of March 26, 1947 (second nationalization law), establishments and plants producing and distributing electrical energy were nationalized, because 90 percent of these establishments were already publicly or municipally owned.

During the years 1945-1946 only the greatest difficulties were eliminated. A noticeable production increase, fostered by increasing imports of raw materials and food stuffs, occurred during 1947 at which time the coal situation was also eased and the crisis in the power sector could be ameliorated. The decisive turn of events in the economic consolidation, however, remained to be accomplished with the assistance of the Marshall Plan.

3. Special Problems in Austrian Reconstruction.

a) The question of "German Property."

At the end of the war, when Austria received her independence (perforce limited because of occupation statutes), her economic situation had been basically altered in comparison with 1937. The economically and organically different set-up of the German Reich made a reorganization of the economic status necessary. Austrian production means were diminished further by transfers of private as well as public production establishments into German hands, particularly after 1938. This "German Property" became fateful in Austrian economy with the Potsdam Agreement of August, 1945.

According to the agreed terms of the Allied Powers, German reparations were to include German assets located in countries previously occupied or controlled by Germany; these assets were to be subjected to the control of the various Allied Powers relative to their geographic location (in Austria according to occupation zones).

Under this title more than 200 enterprises in Austrian territory, mostly in the eastern part of the country (among them the entire oil industry,

471 655 some federal ministries as well as the reorganization of the sphere of action of others), is being taken care of by the federal ministry for traffic and nationalized enterprises, the administration of the nationalized commercial banks falls within the competence of the Federal Ministry of Finance. The nationalization comprises:

[453] 1.) The large banks (Creditanstalt-Bankverein, Oesterreichische Länderbank AG, and Hypotheken- u. Kreditinstitut);

[327] 2.) The most important enterprises of the iron and steel industry (Oesterreichische Alpine Montangesellschaft, Vereinigte Oesterreichische Eisen- und Stahlwerke A. G., Linz, Schoeller-Bleckmann Stahlwerke A. G., Vienna, Gebrüder Böhler u. Co., A. G., Vienna);

[316] 3.) The most important coal mines (Wolfsegg-Traunthaler Kohlenbergwerke A.G., Linz, Steirische Kohlenbergwerke A.G., Vienna, Lankowitzer Kohlen-Compagnie, Vienna, etc.);

[372] [373] 4.) A number of important enterprises of the electric and machine manufacturing industry (AEG-Union Elektrizitätsgesellschaft, Vienna; Simmering-Graz-Pauker A. G. für Maschinen-, Kessel- und Waggonbau, Vienna, etc.);

5.) The Oesterreichische Stickstoffwerke A. G., Linz;

[316] 6.) The most important non-ferrous mining enterprises (Bleiberger Bergwerks-Union, Klagenfurt; Montanwerke Brixlegg Ges. m.b.H., Brixlegg; Kupferbergbau Mitterberg, Mühlbach am Hochkönig; Aluminiumwerk Mattighofen-Ranshofen);

[505] 7.) The Erste Donau Dampfschiffahrtsgesellschaft, Vienna;

[377] 8.) The large enterprises producing electric power; and, finally,

[315] 9.) The enterprises for the exploitation of crude oil.

With the enacted legislation the ownership-rights (re: corporations) or the assets and liabilities of certain enterprises (limited companies, etc.) or plants (branch establishments of enterprises located abroad) became the property of the Republic of Austria. This in turn implied also the transfer of the administration of the nationalized enterprises to the Austrian government, provided that such enterprises were not located within the Russian zone (USIA establishments) and therefore beyond Austrian control. The enforcement of the nationalization, however, is not completed because:

471 475 regulations as privately owned enterprises.

If companies or enterprises, under the regulations of the corporation law, were for any reason not as yet able to install the required responsible executive managements (executive officers, board, stockholder meetings) the competent authority, in accordance with the terms of the federal law of July 26, 1946, installed public administrators. The privilege, however, does not apply to enterprises and plants working under their legally installed executive managements; such an existing status permits the government to introduce motions, by its delegated board members, only within the scope of legal corporate requirements.

[647] According to the federal constitutional law of June 16, 1948 (Rechnungshofgesetz), all nationalized enterprises are subjected to the accounting and business policy control of the Oberster Rechnungshof (superior accounting office of the government), which in turn is responsible to the parliament for rendering account.

By these means parliament wanted to prevent red tape in the commercially managed establishments.

453 452 727 c) The reconstruction of the Austrian credit institutions.

Following the loss of Austrian sovereignty in 1938, changes within the great Austrian banking organizations occurred. The Austrian National Bank disappeared as bank of issue, its Vienna organization became a branch office of the German Reichsbank, the substantial gold and foreign exchange holdings as well as other assets were transfered to the latter, so that from 1938 to April 1945 no independent money and currency policy was possible.

Likewise, the nationalized banking institutions were confronted with structural changes which, after 1945, brought about problems of balance adjustments. Therefore, if the entire question complex and the enforcement of relative measures are to be ascertained, it is necessary to become acquainted with the developments which have occurred. Austria, having been reestablished as a sovereign nation at the end of the war, faced a greatly changed situation in comparison with 1937. The prior assimilation into the economically and organically different economy of the German Reich, caused a far

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reaching reorganization of the Austrian economic structure. What was needed after the political and economic disintegration of 1945 was, therefore, a basic recreation of the entire economic system, including (for reasons of monetary policy) the liquidation of the previously war-influenced German financial policy. In addition, it must be noted that in Southeastern Europe, previously representing a traditional Austrian interest and marketing sphere, political changes had occurred, making necessary write-offs of participations and accounts and a reorientation of previous relations. By having been made a part of the German Reich there occurred within Austria, because of the German methods in financing war expenditures, a substantial discrepancy between the amounts of money and goods available. On the asset side of the ledgers of the credit institutions special consideration was required for the so-called "Reichswerte" (bonds of the German Reich, treasury notes, treasury certificates), liabilities of the German Reich, its states and countries as well as of central and monetary clearing offices, the holdings of which increased rapidly during the first war years. They represented, as far as bonds, treasury notes and treasury certificates were concerned, mostly counterparts of deposits which had to be transferred to Berlin for conversion into such securities. That was done on instruction of German authorities in order to finance German war expenditures. At the cessation of the conflict these deposits, from a national-economic point of view, could no longer be considered covered, inasmuch as their counterparts became valueless or at best dubious as collateral. For reasons of the occupation zone division, at that time strictly applied, the "Schaltergesetz" was enforced only within the Russian zone, Vienna included.

From a monetary point of view the war's heritage consisted of an oversized volume of money and, for the time being, of losses to owners of securities of the German Reich, i.e., the banks and industrial enterprises.

The first legal enforcements (the "Schaltergesetz" of July 5, 1945, as well as the "Schillinggesetz" of November 30, 1945) were primarily construed to reestablish orderly monetary conditions, i.e., the setting of an ultimate money volume, the establishment of a new currency and the elimination of excess purchasing power.

452 453 The "Schaltergesetz" decreed the reopening of the banks, closed since April 1945, and, for the time being, a blocking of 60 percent of old deposits (i.e., funds deposited prior to the reopening of banks). The remaining 40 percent could be used, within restricted limits, for vital economic purposes. The "Schillinggesetz" went a step further. Extending the variously applied monetary measures, enforced within the Russian zone, to Austria as a whole, it established the basis for the Austrian (schilling) currency under the sole control of the Austrian National Bank and blocked 60 percent of all deposits accumulated prior to December 22, 1945. This was a monetary measure to [458] effect a diminution of the upwards trend of prices through a curtailment of money in circulation. The remaining 40 percent were disposable, partly free, partly non-negotiable andpartly restricted to certain uses. Funds deposited after December 22, 1945, were free of any restrictions.

The third and most important step towards a currency consolidation occurred with the enforcement of the "Währungsschutzgesetz," which had to accomplish a two-fold task. One was the diminution of currency in circulation (notes in circulation plus free contingent liabilities) amounting to 9 billion schillings prior to the enforcement, by a skimming-off process of notes in circulation and by a cancellation (diminution of deposited currency) of blocked funds, accumulated with banks as a result of prior enactments. The other task was to prepare a settlement of the unbalanced statements of banking institutions, reflecting the war and postwar losses. Thus the prerequisites for a reorganization of the entire credit apparatus were created.

Particulars about the technical procedure of the curtailment of the currency circulation in accordance with the "Währungsschutzgesetz" will not be discussed here. With regard to deposited funds, all blocked accounts established in accordance with the "Schaltergesetz" and the "Schillinggesetz" of 1945 were cancelled. The remaining, restricted disposable 40 percent balances were converted into demands against the federal treasury. [To cover the demand against the federal treasury, following the skimming of accounts, the federal ministry of finance was empowered to issue "Bundesschuldverschreibungen" (treasury bonds) or to enter these demands into a newly created "Bundesschuldbuch" (record of federal obligations).] The various

categories of accounts were simplified and the skimmed amounts transferred to new accounts which, excepting temporary limitations, were free of restrictions. 652 453

The diminution of deposited funds (skimmed-off and therefore economically non-covered deposits) as well as of the contingent liability account of the Austrian National Bank (details are not being mentioned) took effect immediately. The banking institutions were required by law to proceed at once with the skimming off of the accounts involved and to transfer the skimmed-off amounts to a special account of the Federal Treasury. In this connection there occurred a shift within the liability items of the bank balances, whereas the actual balance sheet settlement was to be effected after enforcement of the authorization, empowering the federal government (paragraph 22 of the "Währungsschutzgesetz") to stipulate the time, the manner and the amounts to be written off and credited to the Federal Treasury. The enforcement of this authorization has been promulgated with the approval of a draft submitted by the Federal Minister of Finance, covering the third and final regulation with regard to the delivery of values as per paragraph 22 of the "Währungsschutzgesetz" of November 19, 1947.

In accordance with the terms of this regulation the banking institutions are required to deliver such assets of the Federal Treasury to the Ministry of Finance, whereby, to relieve their balance sheets, they are permitted to deliver instead of money the aforementioned "Reichswerte" at their book or par value. The demands against central clearing institutions are of importance to savings banks and cooperative credit associations.

The enforcement of this regulation did not solve the reconstruction problem even if, for the time being, a welcome settlement of balance sheets was achieved. The complex of remaining problems required a great deal of further deliberations. The range of the compensation as well as the details of the technical execution are not being explored here.

As stated before, the scope of reconstruction requires that additional considerations be taken into account. They are sketchily indicated below.

While the first reconstruction phase, in compliance with the "Währungsschutzgesetz," brought about the definite elimination of blocked accounts transferred

652 to the Federal Treasury and written off against an
453 offset of securities of the German Reich, the second phase will comprise the elimination of the remaining odd lots of such German securities. In addition, it will be necessary to establish the sources of loss in connection with the war. This includes losses incurred mainly through sequestration of cash on hand as booty, securities and participations devalued to nil (excepting German securities) and, finally, through general losses incurred in accounts receivable. (Losses incurred in connection with credit lines guaranteed by the Reich assume a special significance.) All of these represent values which at several institutions comprise a special block of "domestic and foreign assets" to be settled within the scope of pending reconstruction endeavors.

[45] It remains understood, and this has been pointed out by the Federal Minister of Finance, that the settlement of the whole complex requires the establishment of true reconstruction balance sheets, a prerequisite to be accomplished only after enforcement of a law decreeing the execution of "Schillingseröffnungsbilanzen" (initial balance sheets in schillings). As a result of the yet unsolved problem of the so-called "German Property," the computation of final figures will certainly meet with difficulties, especially with respect to the large banking corporations. This follows because (1) a clear definition of the term "German Property" has not as yet been established; (2) it is impossible to compute the participation values of the enterprises concerned without knowledge of the exact computation date in the absence of a state-treaty; (3) in some cases the prerequisites as to the corporate status, especially with regard to enterprises administered partly by Austrians and partly by an occupation power, still need clarification.

Noteworthy, furthermore, is the varied handling of "German Property" within the various occupation zones. Besides the contemplated settlement of balances within the scope of the first phase, the compensation of the remaining "odd-lots of German securities" and the general settlement (since the enforcement of the "Schillingsgesetz") of blocked but not written-off deposits, only relative estimates will be obtained which ultimately, after the elimination of evaluation difficulties, will find a correction.

Although a settlement method covering the "odd-lots" of German securities and subsequently the

block of "domestic and foreign assets" has not been designed as yet, some means to assure the functioning of the various credit institutions undoubtedly will be forthcoming. 652 453

The banking institutions, besides effecting a settlement of their balance sheets, will also be required to establish additional provisions in order to complete their economic as well as social-political tasks. In this connection the creation of a sufficient liquidity, the securing of an adequate capital structure and, last but not least, provisions for a corresponding amount of reserves to meet pension obligations towards their employees are more important. All these problems require generally and individually special solutions if the institutions are to accomplish their tasks satisfactorily within the national economy.

Thus, for example, with respect to international economic relations, the banking situation requires a settlement of balance sheets according to international procedures so that the liquidity of the banks and the coverage of accepted deposits be self-secured, inasmuch as the banks could be called upon to correct market fluctuations so as to assure continuity of work within the economic sphere. However, such a policy will only prove successful if they have disposal over sufficient means. Furthermore, with Marshall Plan assistance terminating in 1952, questions concerning capital and credit correlations will form the main aspect of European and international collaboration. Still greater tasks will develop internationally and foreign trade acceptance credits will find an ever increasing use. Such a development requires that the banks, more so than other enterprises, have available corresponding capital to serve as a basis for credit extensions. In comparison with other business enterprises, which have invested their means in commodities or other goods, the banks, as a result of war and postwar occurrences, sustained larger capital losses. Thereupon shifts occurred which created a situation in which the relationship between means and deposits were no longer in conformity to internationally set standards (generally amounting to at least 10 - 15 percent of the balance sheet total). The procurement of these necessary means will be of great importance. Since prevailing conditions in the capital market do not permit the procurement of capital in the customary manner, the capital needed will have to be accumulated out of profits of the banking institutions, provided certain tax exemption measures are enacted. 457 453 652 454

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453 Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

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457 B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

78.5 million schillings in municipal bonds could be sold. Buyers of debenture bonds were mainly insurance companies. 454

The raising of capital, instead of being accomplished through the customary way of issuing new shares or bonds, had to be effected by the extension of credit lines which, especially after the inception of Marshall Plan facilities, the banks extended on the strength of their liquidity reserves or by means of refinance possibilities created with ERP counterpart funds. 453

The total amount of credit outstanding with Austrian credit institutions at the close of 1950 amounted to 10,699.1 million schillings, including 1,012 million schillings extended during the last quarter of 1950. Components of the amount were for the following purposes:

	Million Schillings
Reconstruction (investment credits)	2,267.6
Commodity credits	702.0
Commercial credits	7,729.5
	10,699.1

Of this banks and bankers extended 7,703.3 million schillings through refinancing possibilities of the Austrian National Bank.

	Million Schillings
Reconstruction credits	2,267.6
Commodity credits	700.7
Commercial credits	4,735.0
	7,703.3

Considering that the amount of reconstruction credits (approximately 2.3 billion schillings) represents a transit item for the banks (the notes shall be converted into a bond issue at a later, appropriate opportunity), there remains the fact that, due to the slowly progressing creation of genuine (savings) capital, a certain discrepancy between the creation of new capital and capital need exists. This led to the adoption of credit policy measures during the first quarter of 1951. Up to the end of December 1950 total deposits with banks amounted to 9,469 million schillings of which 2,198 million schillings represented deposits in savings accounts and 7,271 million schillings deposits in checking accounts. Therefore, counterpart funds and self-financings are presently the main factors in industrial investments. 454 453

652 To this should be added that the surplus in expenditures for investments pertains exclusively to the extension of agriculture and forestry, tourist traffic facilities, the building of apartments for workers and the reconstruction of war-damaged dwellings. The expenditures for investment in institutions of state administration were lower by 2 million schillings than foreseen in the budget estimate for 1950. Of the 1,076 million schillings spent for the institutions of state administration only 377 million schillings were covered by ECA funds; the remaining 699 million schillings were covered by the surplus of current transactions (471 million schillings), other extraordinary revenues (80 million schillings) and from cash-on-hand. The consequence of this important diversion of state funds to cover investments, caused mainly by delays in alloting 70 million schillings from the ECA funds in the fourth quarter of 1950, was the creation of a long severe strain on the State's funds.

[654] The investments of 550 million schillings for the extension of agriculture and forestry and for tourist traffic, as well as for workers' dwellings and the reconstruction of war-damaged apartment houses, have been covered in full from ECA funds. For these investments there were only proposals in the 1950 estimated budget, but no credits had been provided since these investments were to be carried out only in accordance with allotments from ECA funds. The expenditures for these investments appear, therefore, as overdrawing on the estimated state budget for 1950.

e) Scope of the tasks of the Austrian banks in fulfilling the Marshall Plan. Financing of Marshall Plan deliveries.

453 457 652 In the technical execution of the Marshall Plan the Austrian banks have a very important role. They are obliged, in the first place, to give advice on the financial feasibility of individual transactions before the applications of Austrian importers are presented for endorsement to the Federal Chancellory-ERP-Central Bureau, Vienna (Bundeskanzleramt-ERP-Zentralbüro, Wien). Moreover, they are in charge of opening letters of credit for single transactions which are covered by letters of commitment. They cash the schilling counterpart on the basis of documents which have been sent to and cleared by New York banks and notify the Federal Chancellory-ERP-Central Bureau on the carrying out of single transactions.

The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the National-bank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that these larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 The financing of credits for investments
652 (Aufbaukredite) is likewise provided by different
453 types of drafts (three-months validity) until such
[454] time as definite solutions (consolidation) will be possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 With the activation of the multilateral
457 balance within the frameworkof the European Payments
652 Union after October 1, 1950, some changes took place in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

652 4. An amendment to the foodstuffs control law (Lebensmittelbewirtschaftungsgesetz) which aims at assuring a basic amount of food for the people;

5. The foreign trade law (Aussenhandelsverkehresgesetz) aiming at providing a legal groundwork for the coordination of the procedures and decisions of the Economic Directorate with the activities of those officers who were entrusted with handling problems of foreign trade.

Moreover, it became necessary (as was already the case in other countries) to take certain measures in money and credit policy against the progression of inflationary forces.

652 453 One of the first results of internal measures was an agreement reached between the Austrian Nationalbank and the Association of Austrian Banks and Bankers on March 16, 1951, concerning the procedures for a qualitative selection of credits. Its aim was to prevent the extension of credits which could not be reasonably justified. A new definition of the economically non-justifiable credits stipulated a sharper selection of the individual applications. In extension of this agreement, another agreement was reached between the Ministry of Finance and the abovementioned group of credit institutions, sanctioned also by the Austrian Nationalbank, as of April 6, 1951. A quantitative control of credits was provided exceeding the items of the former agreement. The credit institutions which made this agreement accordingly obligated themselves to maintain, for the beginning, a liquid reserve of 25 per cent in foreign means. An increase of this reserve to 30 per cent toward the end of 1951 was anticipated, with the condition that then 10 per cent liquid means of first grade and 20 per cent of such means of the second grade must be kept on hand. (Liquid means of the first grade are: cash, deposits at the Austrian Nationalbank and at the Oesterreichisches Postsparkassenamt. Liquid means of the second grade are: negotiable federal savings bonds at the Austrian Nationalbank, checks, payable coupons, deposits which may be used as collateral at the Austrian Nationalbank, deposits payable daily at the Austrian credit institutions.)

435 652 After rising prices had relaxed somewhat in May, prices in general rose again after June (partly seasonal). The indices of wholesale and retail prices as well as of the living cost were rising again thereby

452 the Austrian Nationalbank) an increase of the total
652 amount of credit extended from 10,677.2 million schillings (December 31, 1950) to 15,226.5 million schillings (in the end of December 1951).

The total volume of credit comprised in the single categories of credit is:

	Dec. 31, 1950	Dec. 31, 1951
	(in millions of schillings)	
Credits for raw materials[a]	702.0	804.6
Other commercial credits	7,707.6	10,347.6
Reconstruction credits[b]	2,267.6	4,074.4
TOTAL	10,677.2	15,226.6

[453] a) These are credits which are to finance the import of semi-manufactures (in the first place, raw materials). Promises of refinancing are given by the [457] Nationalbank and by credit institutions which have to guarantee them along with the Nationalbank. They come from direct and indirect ERP aid for carrying out of deliveries.

b) These are check-credits serving the financing of ERP investments out of ECA releases. They are guaranteed by the government according to the law of March 30, 1949 (BGBl.101/49) and by the promise of refinancing by the Nationalbank.

Listed below are the total credits according to their use as of September 30, 1951 (a later listing is not yet available).

	In Millions of Schillings		
Total credit volume	14,415	=	100.0 per cent
Commercial credits	10,908	=	75.7 per cent
ERP credits	3,507	=	24.3 per cent
From these: Industry and Mining	3,500	=	99.8 per cent
Small business	7	=	0.2 per cent

The commercial credits are listed as follows:

Industry and mining	4,342	30.1 per cent
Trade	2,894	19.3 per cent
Small business	934	6.5 per cent
Agriculture	759	5.3 per cent
Länder and municipalities	623	4.3 per cent
Other credit purposes	978	7.6 per cent
Reconstruction of dwellings	378	2.6 per cent

The development of Savings and Checking Accounts is shown in the following table:

	December 1950		November 1951	
	(in millions of schillings)			
Grand Total:				
Savings Accounts	2,198.1		2,320.0	
Checking Accounts	7,271.1	9,469.2	8,817.6	11,137.6
Break-down:				
Joint-Stock Banks				
Savings Accounts	484.5		537.2	
Checking Accounts	4,056.3	4,540.8	4,993.1	5,530.3
Bankers				
Savings Accounts	17.5		23.3	
Checking Accounts	250.9	268.4	207.0	230.3
Savings Offices				
Savings Accounts	965.3		954.7	
Checking Accounts	1,091.7	2,057.0	1,365.9	2,320.6
Credit Associations				
Savings Accounts	488.8		542.6	
Checking Accounts	386.4	875.2	466.6	1,009.2
Other Credit Institutions				
Savings Accounts	242.0		262.2	
Checking Accounts	1,485.8	1,727.8	1,785.0	2,047.2
		9,469.2		11,137.6

Since the beginning of the Marshall Plan up to November 30, 1951, an amount of 12,280.1 million schillings was deposited in the special fund as a schillings equivalent of ERP aid deliveries (U.S. laws 84, 389, 470 and 472). From this amount, 750 million schillings were released for monetary purposes, 6,875 million schillings for financing the industrial investment program, 54.9 million schillings for other purposes, and 579.4 million schillings for the 5 per cent quota reserved for the U.S.--a total of 8,284.3 million schillings. On the key-date an amount of 3,995.8 million schillings remained for further purposes. (These figures do not include the United States aid transactions in the amount of 478.2 million schillings for the period from July 1, 1947, to December 31, 1947, the latter amount referring to purchases.)

652 To evaluate these consequences, the changes
454 in the structure of production are of main interest.
433 According to the Austrian school of national economy, and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2.6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

652 The agreement on qualitative and quanti-
● 453 tative credit measures reached between the Federal
452 Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable; moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

those for financing the harvest. The allowable increase of the total amount of credits (excluding the above-mentioned restrictions) may not exceed 70 per cent of the increase of obligations, i.e., of those means which recently have flowed in. An additional increase exceeding the above-mentioned total of credits is allowed only under the condition that liquid means of the first and second grade, in accordance with the agreement of April 6, 1951, effective August 31, 1951, exceeded the necessary liquid reserves at that same date; otherwise, the credits must be restricted to the rate of prescribed reserves. Other items of the agreement refer to the regulations concerning utilization and eventual sanctions if they do not keep to the reserve rates.] 652 453 452

For the purposes of coordination, the additional agreement stipulated that representatives of the bank must meet at least once a month at the Federal Ministry of Finance or at branches of the Austrian Nationalbank. They meet in the form of regional committees to discuss problems of credit policy to establish directions of restriction credits by their own volition, to discuss their fulfillment on the basis of the material in current figures, and from time to time to provide changes in or additions to these directives. The banks are represented in these credit committees by a six-member committee to which one representative each is delegated from the three nationalized big banks (Handels-und Gewerbebank, Arbeiterbank and the Bankhaus Schoeller and Co.). A measure of greater importance to currency policy is the decision of the General Council of the Austrian Nationalbank to increase the bank rate from 3 1/2 per cent to 5 per cent as of December 5, 1951. (Corresponding to the change of the bank rate, the rates of interest for deposits were altered. Specifically, it was decided that current account deposits will be handled in the future at the rate of 1 per cent instead of 3/4 per cent used until then. The rate of interest for savings deposits and non-negotiable paper was set at 3 1/2 per cent; if left on deposit for at least six months the rate was 4 per cent, and if left longer than 12 months, 4 1/2 per cent. At the same time the limit for free disposal savings deposits was increased from 3,000 to 5,000 schillings per month.) By so doing, Austria joined a number of countries which already had raised their bank rate since the outbreak of the Korean crisis (Belgium, Denmark, West Germany, Finland, France, Great Britain, Canada, the Netherlands, Sweden, and the United States). For the first time since the end of the war the enforcement of this measure

652 in currency policy puts a special stress on the dis-
453 count rate as an instrument of the policy of money-
452 issuing banks. (The last change of bank rate in Austria had been in 1935.)

Considered from a merely economic point of view, the rise of the bank rate means a transfer of the prospects of profitableness from long-term to short-term investments. In this way those endeavors are to be supported which aim at compensating the effects of the present essentially decelerated extension of credits through a greater offer of consumption and export goods in relation to price policy. Moreover, the increase of the bank rate is a proof of the necessity to go back to measures of economic policy which are in conformance with the conditions on the market. The more the bank rate approaches the so-called "natural rate of interest of capital" the less it is necessary to take other methods for the extension of credit for every quantitative and qualitative credit selection contains elements of subjective opinion. Moreover, the limitation of the volume of credits not only constitutes fixation of a certain figure but, under the prevailing economic conditions, of a fixed relation between investments in the production goods industries to that in the consumption goods industries. This relation, which is so decisive for credit policy and, in turn, for the stability of prices, approaches its equivalent value more when the economic function of the rate of interest provides a selection among the various possibilities for the utilization of capital. The field of credit policy is the one in which it is most difficult to replace the market mechanism by typical control measures.

Of course, there can be no doubt that supporting reconstruction by a policy of "cheap money" made sense in many respects--especially when one considers the conditions which prevailed in Austria in early postwar years. With reference to continuing consolidation, one has to try to reach an economic selection even here and to adjust credit to the development that has taken place already.

According to the agreement of April 6, 1951, beginning with January 1, 1952, the banks are required to keep 10 per cent of their obligations in liquid means of first grade. This means that the cash reserves in those banks will rise substantially after that date. In addition, the discussions which were held before the October agreement was reached brought

out that the main proportion of the extension of credits (as a consequence of the first agreement) flowed out of the accounts for financing imports of vital raw materials and of credits for the support of exports. These conditions do not lie within the banks' sphere of influence (not taking into consideration the directives for credits as laid down in the public investment programs). The occasional considerable reserves of the banks, which are tied up with the allocation of foreign currencies, must be taken into consideration. 652 453 452

It is a fact that the individual measures already showed an impact toward the end of the year. According to the statistics on credits and liquid money of November 30, 1951 (i.e., one month after the enforcement of the second agreement) the volume of credit, which is under control, decreased for the first time since 1947 by 30 million schillings--a rather low amount. Even if one considers the financing of credits for exports, and the especially high financing of credits for the sugar beet harvest, there is a total decline in volume by 80 million schillings at a time when a general increase in credit demands could be observed.

There are today two methods of determining the total of the means of payment in an economy at any given date. The Anglo-American method takes into account the total volume of the means of payments in circulation, plus free obligations of the national bank, plus checking account deposits at the commercial banks, minus interim bank obligations (i.e., deposits of credit institutions at the national bank and at credit institutions). The Continental method does not take into consideration the checking account deposits at commercial banks. (Recently, the Anglo-American method has been used in Austria, too.)

If one compares the development of the volume of money (paper money in circulation, plus checking account deposits, plus free deposits not at the banks but at the Nationalbank) in the previous year, an increase is shown from 14,608 million schillings to 17,164 million schillings since the end of December 1950 to the end of October 1951 as against a credit volume of 10,677 million schillings and 14,780 million schillings, respectively. The circulation of paper money rose in this period from 6,349 to 7,326 million schillings, the checking account deposits from 7,271 to 8,938 million schillings. The free deposits of public agencies, which 436 652 453

436 652 453 are held at the Nationalbank, sank from 988 to 800 million schillings in the same period. At the end of December 1951 the circulation of paper money amounted to 8,023 million schillings, the free non-bank deposits to 987.7 million schillings.

The flow of the volume of money was mainly influenced by the expansion of credits as well as by the flow of counterpart accounts. Exits on the basis of releases and current payments from proceeds caused a decline in time-limited deposits of public agencies at the Nationalbank (mainly counterpart accounts) from 1,941 million schillings at the end of December 1950 to 1,290 million schillings at the end of October 1951.

Bank statements show a considerable reduction in the "Bundesnotenschuld," from 4,124 million schillings in October 1951, and 2,030 million schillings at the end of December 1951. In the first statement after the currency reform of 1947, this item was still 7,547 million schillings higher. The exits in the last four years amounted to about 5,517 million schillings. Out of this amount, 850 million schillings went to retirement of the national debt (as provided for the purpose of securing currency stability on December 31, 1948). Another approximately 4,461 million schillings went to the releases of ECA funds for ERP investments in industrial enterprises; the remaining 205 million schillings went for other economic and political-financial purposes.

Amounts increased, however, for refinancing the reconstruction credits. From December 1950 to the end of October 1951, the increase was from 2,277 million schillings to 3,612 million schillings, and exceeded by 4,042 million schillings the 4 billion limit at the end of December 1951. The subsequent treatment of these blocs of reconstruction drafts (which were no longer handled by the Nationalbank) and their transfer on the capital market has been treated in another connection.

The free endorsement deposits of the credit institutions sank with the extension of credits from 299 million schillings (at the end of December 1950) to 211 million schillings (at the end of October 1951). However, they recovered to 540 million schillings towards the end of December. This increase is very closely related with the obligations of the banks to keep 10 per cent of their credits in liquid means of the first grade.

457 foreign aid. While in 1951 about 200 million
652 dollars was available, this sum will be approxi-
mately 100 million dollars for 1952; the schilling
counter value to foreign aid, therefore, will de-
cline from 4.4 billion schillings to presumably 2.1
[435] billion schillings. Moreover, as the prices at the
end of 1951 were higher by 12 per cent than the
average for 1951, there will be about 2.7 billion
schillings less out of foreign aid funds for invest-
ments than in 1951.) In addition, the budget is
burdened by a number of price supports, the abolition
of which will not be possible to a full extent under
the present conditions. Immediate reactions on the
prices for foodstuffs and new rises in wages would
be the consequence. The policy of supporting prices
must not be omitted when the system of subsidies is
altered. [Since the fifth Wage and Price Agreement
of July 1951 the existing method of financing im-
portant consumption goods was taken over from counter-
part funds by the budget. Thus, there are still
considerable budgetary expenditures under this title.
They amount per year to about 40 million schillings
for the support of domestic bread-grain prices, 366.5
million schillings for foreign bread-grains, 555.75
million schillings for fodder, 110 million schillings
for fertilizers and 135 million schillings for raw
materials of fats needed by the margarine industry.
The term for supporting the prices of domestic bread
grains (15 groschen per kilo) already has expired.
The remaining subsidies will expire with the end of
June. Discussions with the aim of continuing these
subsidies are not yet finished. They tend, above all,
to stimulate production by adequate prices.]

652 Already in the preceding year the stabili-
[453] zation of the money value was prepared to a consider-
able extent. Measures of this type were: the intro-
duction of the quantitative and qualitative control
of credits; the increase of the bank rate from 3 1/2
[435] per cent to 5 per cent; and the lowering of prices,
started by private industry of its own volition--this
latter measure applying to about 80 categories of
goods. This materially and psychologically important
premise of an organic policy for stabilization must
be supplemented by an adequate budgetary policy. It
cannot be denied that the measures which were taken in
the preceding year had already brought about signifi-
454 cant results. The savings increased considerably in
652 the first two months of the present year; they rose
from 2,275.1 million schillings (checking account
deposits 8,898.7 million) to 2,619.5 million schillings

458 section of the population was substantially preserved. Even so, to the extent that prices *did* fall, the real burden
435 of debt was increased. The smaller peasants, particularly those in the poorer mountain districts, suffered most and the Government was more than once forced to come to their assistance.

439 There can be no doubt that the growing protectionism reduced the advantages of international division of labour. But there was little choice in the circumstances. The loss of income from exports had to be replaced by home-produced income. While exports declined rapidly (until in 1933 they were only 35 per cent of the 1929 level [2]). Austria's readjustment of production allowed her to cut down imports in the same period to 35 per cent of the 1929 level. This went a long way in solving the long-standing balance of trade problem; but the way in which it was solved was hardly the ideal one. The import surplus, which had amounted to over 1,000 million schillings annually in the period preceding the depression, fell to 848 million schillings in 1930, 870 million schillings in 1931, 620 million schillings in 1932, 373 million schillings in 1933, and 296 million schillings in 1934.

• 453 The depression thus took its "normal" course in Austria: a fall in the national income and in production, a rise in unemployment, misery, and social tension, accompanied by frantic but unco-ordinated efforts by all governments to stop the catastrophe and to readjust the domestic economic structure. Austria travelled the same road as the rest of the world. But half-way through the crisis, in the beginning of 1931, there occurred an event which suddenly revealed, not only Austria's financial weaknesses, but those of the whole world. To this event, the breakdown of the Credit-Anstalt, we must now turn.

There were two major financial problems in Austria.

2 [CP CATEGORY 116, P. 63 -- ANALYST]

THE EFFECTS OF THE WORLD CRISIS

First, Austria's banking system had been seriously thrown out of gear by the break-up of the Empire and by the subsequent inflation. Vienna, it is true, continued to serve as a major financial centre for central and south-eastern Europe. But the newly created financial institutions of the Succession States now took the "cream" off the market. They supplied the credit requirements of the new, and highly protected, industries of their countries: and the Vienna banks had to employ their funds in less secure fields.

The fictitious banking boom of the inflation was followed by a process of readjustment. The banks began to cut down their staffs and expenditure, and to revise their balance sheets. But there was no systematic and orderly approach to the problem. Progress was haphazard and altogether too slow. There were danger signs even before the outbreak of the world depression. All the banks had had to cope with considerable difficulties. Some of them, including not a few of the more important ones, went down. Well-known institutions like the Depositen Bank and the Anglo-Austrian Bank had to be liquidated or absorbed by other banks. Finally, in 1929, the Bodencreditanstalt, the second largest bank in Austria, found itself in trouble. In order to prevent a failure of this bank and the consequent loss of confidence, the government pressed the Credit-Anstalt, Austria's biggest bank, to take over the Bodencreditanstalt. This, however, could not but weaken the financial position of the Credit-Anstalt, now by far the most important credit institution in Austria. Its balance sheet totals now made up no less than 70 per cent of the figures for all Austrian banks taken together.

Secondly, the credit structure as a whole rested on a rather precarious foundation. All the central European

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banks had tended to increase their liabilities in relation to their own capital; and the high rates of interest had led to a continuous influx of foreign short-term money which the banks re-lent for medium- and even long-term purposes. This could not but render the banking system (in Austria and elsewhere) highly vulnerable to any sudden outside shocks.

The shock (or rather several shocks) came with the outbreak of the world depression. First, with the 1929 stock-exchange boom in Wall Street in full swing, the inflow of short-term funds (particularly American) which had been continuous from 1925 onwards came to an abrupt end. Later, loans were called in so as to satisfy the desire for liquidity which the depression had everywhere created. But a large part of this money had been re-lent for purposes of long-term capital-extension and it was now found to be "frozen". Further sums had been invested in the Balkan countries where the catastrophic fall in agricultural prices rendered the service on foreign loans increasingly out of the question. Bad debts accumulated and had to be written off.

The decline in the banks' liquidity was only half the trouble. They also lost much of their own capital. The Austrian banks—and to a lesser degree all Continental banks—had been in the habit of investing a large part of their capital in industry. With the severe decline in industrial production and profits, the banks thus suffered heavy losses on their shareholdings.

All these factors had been quietly at work below the surface of an apparently smoothly working banking system. Quite suddenly, however, these facts were brought to light, with all their devastating implications. On May 11th, 1931, it was announced that the losses of the Credit-Anstalt had been so severe that it was unable

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

to meet its obligations without liquidating the whole concern. It appeared later that its outstanding obligations were actually considerably in excess of its own capital, which then consisted of 125 million schillings, together with a reserve fund of 40 million schillings.

The bare announcement of these facts had staggering effects. It set the ball rolling which knocked over the financial and monetary stability not merely of Austria but of the whole world. For the Credit-Anstalt was not just *some* Austrian bank. It was closely integrated into the world's financial structure. Its foreign debts amounted to $76 million of which 27 million were due to Great Britain and 24 million to the United States. Certain banks in other countries which had considerable interests in the Credit-Anstalt were directly affected, and so the crisis spread from the Credit-Anstalt to the German Darmstaedter and National Bank and to the Dutch Amstel Bank.

There were other less direct but even more important consequences. The failure of the Credit-Anstalt did not just mean the freezing of a number of credits; it was a symptom of the serious deterioration of the world's financial and economic stability. Loss of confidence, nervous and rapid shifts of capital, extreme economic nationalism in monetary matters, which had been raising their heads here and there, now came fully out into the open. A line is, in fact, discernible which leads from the collapse of the Credit-Anstalt to the suspension of the Gold Standard in Great Britain in September, 1931.[5]

Let us now return to the Austrian scene. When the position of the Credit-Anstalt became known it was clear that such an important institution could not be allowed to go bankrupt. Too large a sector of Austria's industry was dependent on the Credit-Anstalt for fixed and working

[5] [CA CATEGORY 116, p. 63 -- ANALYST]

capital; the country's foreign credit was too closely bound up with the solvency of this bank. The Government therefore stepped in within four days and, together with the Austrian National Bank and the House of Rothschild, assumed responsibility for its financial reconstruction. A number of measures followed in quick succession. The government guaranteed first the foreign, and later also the domestic deposits of the Credit-Anstalt. A committee was set up in London to represent the interests of foreign creditors. An agreement was signed providing that 500 million schillings of foreign short-term credits were not to be withdrawn for two years. Strict economies were introduced. Salaries and pensions were heavily cut by decree; many of the bank's employees were sacked. The problem of an overgrown banking system was at last being solved; but in a way which created much misery and dislocation. No doubt, the Credit-Anstalt had somehow to be saved. But the Government was too concerned about the profitability of the concern and the interests of the shareholders. Its measures contributed to the already serious structural unemployment among the middle classes and served to prolong the depression. Moreover, the Government missed an unique opportunity of using its newly gained influence over the main credit institution to re-organize and direct the country's industrial structure in the national interest.

But the collapse of the Credit-Anstalt did not only call for far-reaching measures for the restoration of that institution. It also had grave repercussions on Austria's monetary system. The National Bank had been forced to re-discount a large number of Credit-Anstalt bills, and the note circulation began to swell. At the same time, in spite of the Government's speedy assistance and guarantee, confidence had been shaken and funds were withdrawn

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

from the Credit-Anstalt on a large scale. Particularly foreign short-term credits, which had already trickled outwards ever since 1929, were now called in rapidly. About 1,000 million schillings were withdrawn from Austria within a year.

This put a severe strain on the foreign exchange reserves of the National Bank. The stability of the currency, which had rested on a firm basis since the inflation had come to an end, was threatened once again.[1] Support was urgently needed and, for the second time in its short history, the Austrian Republic had to appeal for foreign help. Some welcome, but sadly inadequate, help was rendered in June, 1931, in the shape of a 150 million schillings credit from the Bank of England and 100 million schillings from the Bank for International Settlements. This eased the strain for the moment, but soon there was a renewed decline in foreign exchange reserves. Germany and Hungary suspended their foreign payments. This meant not only a loss of expected income but it also undermined confidence still further and a flight of capital set in which threw the foreign exchange market completely out of gear.

On August 7th, 1931, the Austrian Government asked the League of Nations for a 250 million schillings loan. As in 1922, this loan was ultimately granted. But again the help did not come soon enough. After prolonged negotiations and investigations the Financial Committee of the League of Nations stressed in March, 1932, that the financial strain of Austria, Hungary, Greece, Bulgaria, etc., was mainly due to world causes over which they had very little control, and that there was an urgent need for international financial help. In the summer of 1933, two years after the first appeal, the loan was finally launched.

But in the meantime the position had gone from bad

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Germany which had swallowed up one of their important customers and suppliers—Austria had up till then occupied the third or fourth place in the foreign trade of most of these countries. Politically and economically Germany had become the complete master of the whole area.

For Austria, of course, the occupation meant far more than a dangerous shift in Europe's economic balance. Her economy ceased to exist as a separate entity; within a very short time it was completely absorbed into Germany's war economy and her "New Order".[5]

The Germans were able at once to lay their hands on all Austrian State property. The railways were incorporated into the German railway system, the State forests taken over by the German State. The State monopoly in salt was given to the Deutsche Bank, and the tobacco monopoly taken over by a private German company. Far more important, however, were the shares of the Credit-Anstalt which were owned, at that time, by the Austrian Government. After the reorganization of the Credit-Anstalt in 1931, 49 per cent of its shares were taken over by the Government. These, together with some others, were now transferred to the Deutsche Bank. Since at the same time the only other important bank, the Zentraleuropäische Länderbank, came under the control of the Dresdner Bank, practically the whole of Austria's banking and insurance business had passed into German hands.

It must be borne in mind, in this connection, that the Central-European banks held a key position in the industrial life of their countries. It has been estimated that the Credit-Anstalt controlled almost 90 per cent of Austria's industry and agriculture. Moreover, the Austrian banks and financial institutions still possessed considerable investments in the Balkan countries, particu-

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

larly in banking, and in the textile, chemical, and food-processing industries.[7] All these controlling positions now passed into the hands of the German banks. Vienna became Germany's launching ramp for south-eastern Europe, and Austrian economic quislings greatly helped the Germans to advance their economic penetration of the Balkans.

But the indirect control of Austrian industry through the banking system was only a first step. Within a very short space of time all the more important Austrian firms passed either partly or wholly into German hands. This was achieved either by methods of outright robbery, as in the case of "aryanization" (the confiscation of Jewish property), or by exploiting the financial difficulties in which many firms had been landed as a result of the occupation and incorporation of Austria; or through a skilful handling of the financial control which had been gained in the first instance. In this way all important industrial enterprises were absorbed into the big German combines like the I.G.-Farben, Krupp, Henschel, Vereinigte Industrie—A.G., and particularly the Hermann-Goering Works, which acquired the control of the largest part of Austria's heavy and allied industries.[8] Altogether, it has been estimated, a share capital of about 380 to 400 million schillings (of industrial, commercial, and banking firms) passed into German hands. This compares with a sum of about 710 million schillings which was the total value of all shares admitted for quotation on the Vienna Stock Exchange in August, 1938.[9]

While the big Austrian firms were being subjected to German control a process of decline took place among the smaller firms. Many small business men were ruined by the policies of rationalization, concentration, and above all by the extension of war production at the cost of the

1 [CT CATEGORY 116. P. 91-92 -- ANALYST]